

1 MARC J. FAGEL (State Bar No. 154425)  
2 JUDITH L. ANDERSON (State Bar No. 124281)  
3 ELENA RO (State Bar No. 197308)

4 Attorneys for Plaintiff  
5 SECURITIES AND EXCHANGE COMMISSION  
6 44 Montgomery Street, Suite 2600  
7 San Francisco, California 94104  
8 Telephone: (415) 705-2500  
9 Facsimile: (415) 705-2501

ORIGINAL  
FILED  
07 JUL 25 AM 9:12  
RICHARD W. WIEMING  
CLERK, U.S. DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

10 UNITED STATES DISTRICT COURT  
11 NORTHERN DISTRICT OF CALIFORNIA  
12 SAN JOSE DIVISION

JW

C 07 3798

13 SECURITIES AND EXCHANGE COMMISSION,

Case No. \_\_\_\_\_

14 Plaintiff,

COMPLAINT

15 v.

16 KENNETH L. SCHROEDER,

17 Defendant.

18  
19 Plaintiff Securities and Exchange Commission (the "Commission") alleges:

20 SUMMARY OF THE ACTION

21 1. From mid-1999 to mid-2002, and once again in 2005, defendant Kenneth L.  
22 Schroeder, the former Chief Executive Officer of KLA-Tencor Corporation ("KLA" or "the  
23 Company"), a San Jose semiconductor company, engaged in a scheme to illegally backdate stock  
24 options granted to KLA executives and employees. Schroeder used dates and prices for stock option  
25 grants chosen with hindsight and concealed this practice, causing KLA to hide millions of dollars in  
26 expenses from investors and to significantly overstate the Company's income. Schroeder continued  
27 to engage in this practice even after being specifically instructed by Company counsel that  
28 retroactively selecting grant dates without adequate disclosure was improper.



1 securities exchange in connection with the acts, practices and courses of business alleged in this  
2 complaint.

3 7. Venue is proper in this District pursuant to Section 22 of the Securities Act [15 U.S.C.  
4 § 77v], and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Schroeder resides in the Northern  
5 District of California, and acts or transactions constituting violations occurred in this district.

#### 6 INTRADISTRICT ASSIGNMENT

7 8. Assignment to the San Jose Division is appropriate pursuant to Civil Local Rules 3-  
8 2(c) and 3-2(d) because acts and omissions giving rise to the Commission's claims occurred, among  
9 other places in this district, in Santa Clara County.

#### 10 DEFENDANT

11 9. Kenneth L. Schroeder, age 61, resides in Los Altos Hills, California. Schroeder served  
12 as KLA's President and Chief Operating Officer after the Company's merger on April 30, 1997 until  
13 June 30, 1999, and then as KLA's Chief Executive Officer until January 1, 2006. Schroeder also  
14 served on KLA's Board of Directors and its Stock Option Committee from 1997 through 2005.

#### 15 RELEVANT ENTITY

16 10. KLA is a San Jose, California corporation that designs, manufactures and markets  
17 systems for the semiconductor industry. At all relevant times, KLA's common stock was registered  
18 with the Commission pursuant to Section 12(g) of the Exchange Act and traded on the NASDAQ  
19 National Market under the symbol "KLAC." At all times relevant to this action, KLA used a fiscal  
20 year ending on June 30.

#### 21 FACTUAL ALLEGATIONS

##### 22 **A. KLA's Stock Option Disclosures**

23 11. During the time period KLA backdated options grants, the Company regularly used  
24 employee stock options as a form of compensation to recruit, retain, and incentivize key employees.  
25 Each option gave the grantee the right to buy KLA common stock from the Company at a set price,  
26 called the "exercise" or "strike" price, on a future date after the option vested. The option was "in-  
27 the-money" when granted if the trading price of KLA's common stock exceeded the option's exercise  
28

1 price. The option was “at-the-money” when granted if the trading price of KLA’s common stock and  
2 the exercise price were the same.

3 12. From at least July 1997 and at all relevant times thereafter, KLA’s primary stock  
4 option plan specifically prohibited the grant of in-the-money options. The plan required that the  
5 Board of Directors set the exercise price of the Company’s stock options, and that the price could not  
6 be less than fair market value on the date of grant, *i.e.*, the closing trading price of KLA common  
7 stock on the date when the key terms of the option grant were known.

8 13. KLA also publicly represented, in audited financial statements and other filings with  
9 the Commission throughout the relevant period, that its option grants were made at fair market value.  
10 In other words, KLA purported to issue options at-the-money, not in-the-money.

11 14. KLA’s public filings affirmatively stated that the Company accounted for its employee  
12 stock option plans in accordance with provisions of the Accounting Principles Board’s Opinion No.  
13 25, “Accounting for Stock Issued to Employees” (“APB 25”). Under APB 25 and the accounting  
14 rules in effect in 1997, through 2005, employers were required to record an expense on their financial  
15 statements for the in-the-money portion of any options grant. According to APB 25, that difference  
16 must be recorded as compensation expense to be recognized over the vesting period of the option.  
17 Consequently, granting in-the-money options to employees could have a significant impact on the  
18 expenses and income (or loss) reported to the shareholders of a public company. APB 25 allowed  
19 companies, where the key terms of an option grant were known, to grant employee stock options  
20 without recording any compensation expense so long as the option exercise price was not below the  
21 stock’s market price on the date of the grant.

22 15. KLA made the statements about its accounting for stock options in accordance with  
23 APB 25 in the notes to its audited financial statements, including in its annual reports to shareholders,  
24 filed with the Commission on Form 10-K, for its fiscal years 1998 through 2005. Also, KLA’s  
25 annual reports for fiscal years 2000 through 2004 stated that under the Company’s stock option plans,  
26 options were granted at prices not less than the fair market value of the Company’s common stock on  
27 the grant date, and in fiscal year 2005, were generally granted at prices not less than the fair market  
28

1 value of the Company's common stock on the grant date. Schroeder reviewed and signed each Form  
2 10-K that made these false representations for fiscal years 1998 through 2005.

3 16. Schroeder further certified the Forms 10-K for fiscal years 2002, 2003, 2004 and 2005.

4 17. KLA also filed proxy statements that were sent to shareholders and contained false  
5 disclosures for fiscal years 1998 through 2002. In these proxy statements, the discussion on executive  
6 compensation falsely stated that stock options were granted at market price on the date of grant. In  
7 addition, KLA's proxy statement for fiscal year 2001 stated that one of the material terms of certain  
8 grants to certain executives was that the exercise price of the options was the fair market value of the  
9 Company's Common Stock as of the date of grant. Moreover, KLA's proxy statement for fiscal year  
10 2002 stated that certain executives, including Schroeder, received a number of options in the last  
11 fiscal year which "were granted at an exercise price equal to the fair market value of the Company's  
12 Common Stock on October 2, 2001."

13 18. The representations to KLA's shareholders in its annual and proxy filings about the  
14 Company's stock option program were untrue. Schroeder knew or was reckless in not knowing those  
15 statements were untrue, because he engineered a scheme to create option grant approvals which  
16 falsely represented the date of the grant to make it appear as though KLA was not required to record  
17 an expense for its options. In particular, to evade the consequences of granting options to employees  
18 in-the-money, Schroeder signed falsely dated options grant approvals to make it appear as though the  
19 options had been granted at the market price on an earlier date.

#### 20 **B. Schroeder's Scheme to Backdate Options Grants**

21 19. In 1997, KLA's Board of Directors delegated authority to grant stock options to non-  
22 officers to a Stock Option Committee consisting of three directors, and required that at least two  
23 members approve each grant. Schroeder served on the Stock Option Committee from its 1997  
24 formation through 2005.

25 20. The Board contemplated that the Committee would meet regularly to price options.  
26 Rather than the grants being priced at a meeting, however, the Stock Option Committee approved  
27 retrospectively-chosen option grant dates and prices and never met regularly during the time period of  
28 backdating.

1 21. Beginning in July 1997 and continuing until mid-2002, certain KLA executives used  
2 an options backdating practice where the signing of grant approval paperwork was deliberately  
3 delayed so that they could look back on KLA's historical closing stock prices and choose one of the  
4 historically lowest prices as the purported grant date.

5 22. KLA backdated grants to newly hired and to recently promoted employees ("new hire"  
6 grants), as well as to current employees eligible for options at the end of the Company's annual  
7 review process (known as "peak performance" or "focal" grants), among others. These backdated  
8 grants reflected historically low prices of KLA stock for the weeks prior to the date on which the  
9 price was selected.

10 23. In June 1999, a KLA executive instructed the Company's Human Resources ("HR")  
11 department about procedures on how to backdate new hire grants: (1) create a list of newly hired  
12 employees; (2) wait several weeks; (3) obtain a list of KLA's daily closing stock price for the past  
13 several weeks; (4) highlight the three or four lowest prices; and (5) forward the new hire list and the  
14 highlighted stock price list to KLA's Stock Option Committee.

15 24. From July 1999 until mid-2002, KLA's HR department followed the procedures  
16 outlined for them for the new hire grants. HR department employees prepared the grant approval  
17 paperwork and sent it to the Stock Option Committee with a historical chart of KLA's common stock  
18 closing prices. KLA's HR department followed these procedures for several months. Thereafter, the  
19 Stock Option Committee instructed the HR department to pick one of the lowest prices before  
20 forwarding the grant approval paperwork to the Committee.

21 25. Month after month, Schroeder routinely signed backdated new hire option grant  
22 approvals without ever ensuring that the grants were accounted for appropriately. Schroeder knew or  
23 was reckless in not knowing that these approvals did not communicate the actual correct grant date.  
24 Based upon these approvals, Schroeder knew or was reckless in not knowing that KLA would not  
25 record expenses for these in-the-money grants. See Appendix A.

26 26. Schroeder knew or was reckless in not knowing that only the Stock Option Committee  
27 members had authority to set the date and price of option grants to new hires and the rank-and-file.  
28

1 He also understood that by signing the grant approvals, he was authorizing the grants at the purported  
2 date and price contained in the approvals.

3 27. Schroeder also approved several peak performance or focal grants using undisclosed  
4 backdated grant dates to existing executives and employees. See Appendix A. Each year KLA began  
5 its annual employee review process at the beginning of the summer and completed it by the end of  
6 August or beginning of September. As with the new hire grants, Schroeder would delay approving  
7 the grants, using hindsight to select a purported grant date with a lower stock price. When Schroeder  
8 signed the grant approvals, he knew or was reckless in not knowing that they did not communicate  
9 the actual correct grant date. Contrary to KLA's representations, Schroeder knew or was reckless in  
10 not knowing KLA would not record expenses for these in-the-money grants.

11 28. From mid-1997 to mid-2002, and once again in 2005, KLA approved on 35 occasions  
12 backdated grants, which included both new hire and peak performance grants, among others.

13 **C. In a March 2001 Memorandum, Schroeder Receives Legal Advice that He Cannot**  
14 **Retroactively Set Stock Prices**

15 29. Schroeder understood the accounting implications of awarding an in-the-money  
16 options grant. Soon after he became CEO in July 1999, Schroeder received communications that  
17 made him aware of the basic accounting rules for stock options. For example, in September 1999,  
18 Schroeder received an email reflecting outside counsel's opinion that certain options granted with an  
19 exercise price equal to the fair market value on the date of grant would not result in a compensation  
20 expense. During the period of the fraud, Schroeder kept abreast of proposed requirements that all  
21 employee stock options (rather than just in-the-money options) be expensed by companies, as well as  
22 pronouncements and deliberations by the Financial Accounting Standards Board on stock option  
23 accounting.

24 30. Schroeder therefore knew or was reckless in not knowing that KLA would have to  
25 record an accounting expense for any options that were granted below fair market value on the date of  
26 the grant. He also knew or was reckless in not knowing the requirements for the determination of a  
27 grant date, *i.e.*, when the key terms of the option grant were known.  
28

1           31.     In March 2001, KLA's then-General Counsel communicated to Schroeder that  
2 selecting grant prices with hindsight required the Company to take a compensation charge, and that  
3 doing so without disclosing the fact could run afoul of the law. On or around March 19, 2001, the  
4 GC sent a "Stock Options Pricing" Memorandum to Schroeder. The first sentence in the Summary  
5 section stated: "the date at which the price of option grants is determined must be the fair market  
6 value of the underlying shares as of the date upon which options are granted."

7           32.     The Memorandum further described the accounting rules for stock options and stated:  
8 "[a]ny attempt to set a price before such a grant is made raises substantial risks under securities and  
9 tax laws [and] accounting rules and gives rise to disclosure obligations." The Memorandum stated  
10 that "the Board and its committees are limited in their ability to grant options at a retroactive price  
11 without exposing the company to risk of an accounting charge."

12           33.     In a March 22, 2001 email back to the General Counsel, Schroeder acknowledged  
13 reading the memorandum and responded: "The Compensation Committee has given the Stock  
14 Option Committee (Gary, Ken and I) power to set the price of stock options . . . Please don't take  
15 away some of my best tools for attracting and retaining people. We need those people to win the  
16 battle. Help me, don't just tell me how to follow a strict interpretation of rules. I need a 'war time  
17 counselor,' not someone who can recite page and verse."

18 **D.     Schroeder Continued Approving Backdated Options Grants Despite Having Read the**  
19 **March 2001 Memorandum**

20           34.     Although Schroeder understood the accounting implications of awarding in-the-money  
21 grants before March 2001, and although he received a further warning in March 2001 that backdating  
22 options grants without proper disclosure and accounting ran afoul of securities laws, Schroeder  
23 nonetheless continued backdating options grants. After March 2001, Schroeder had the Stock Option  
24 Committee approve eight additional new hire grants and two additional peak performance grants, all  
25 of which were backdated. See Appendix A.

26           35.     For example, KLA awarded several grants to employees purportedly on October 2,  
27 2001 at an exercise price of \$29.31, including peak performance grants to officers and non-officers  
28 and a new hire/promotion grant. The \$29.31 stock price on October 2, 2001 was the lowest closing

1 price for KLA's common stock for the second half of 2001. In reality, the grant was not made until  
2 on or around October 24, 2001, when KLA's stock was trading at \$40.86.

3 36. Schroeder signed the backdated grant approval, which resulted in Schroeder himself  
4 receiving options granted in-the-money at the low price. He approved for himself options to purchase  
5 341,100 shares under this grant, which were "in-the-money" by \$5,437,134. Schroeder was by far the  
6 largest option recipient under this grant.

7 37. In response to the Sarbanes-Oxley Act of 2002, KLA adopted in mid-2002 new  
8 procedures for approving options grants, which included pre-scheduled meetings. As a consequence,  
9 backdating became more difficult. Nevertheless, Schroeder backdated an additional grant in 2005.  
10 On January 26, 2005, an HR department employee sent an email to Schroeder providing closing stock  
11 prices for three previous days in order to price a new hire grant. The email asked Schroeder to  
12 confirm using the January 24 price, which was the lowest of the three, and lower than the price on  
13 January 26. Schroeder emailed back "OK for the price on 1/24." Schroeder's actions directly  
14 conflicted with KLA's then procedures for pre-scheduling Stock Option Committee meetings and  
15 pricing options on the actual date of the grant.

16 **E. Schroeder's Backdating Scheme Causes KLA to Falsely Report Financial Results**

17 38. As a public company, KLA filed with the Commission annual reports that included  
18 audited financial statements, certified by the Company's outside auditors. KLA's failure to record a  
19 compensation expense in connection with the backdated, in-the-money option grants resulted in  
20 materially overstated net income on the financial statements in its Forms 10-K as follows: 4% in  
21 1998, 46% in 1999, 9.8% in 2000, 156% in 2001, 30% in 2002, 46% in 2003, 15% in 2004 and 4.8%  
22 in 2005, for a total of over \$200 million of reported net income cumulatively from 1998 to 2005.  
23 KLA also sold securities pursuant to offering documents, including registration statements on Forms  
24 S-8 filed throughout the period of fraud, which incorporated the false financial statements.  
25 Throughout these periods from 1998 to 2005, Schroeder reviewed KLA's financial statements prior to  
26 filing them with the Commission.

27 39. Beginning with the quarterly period ended September 30, 2002 through the quarterly  
28 period ended March 31, 2005, Schroeder certified all quarterly financial statements filed for each of

1 KLA's first three quarters. These Forms 10-Q contained materially false and/or misleading financial  
2 statements because of KLA's failure to record compensation expenses associated with in-the-money  
3 options. Schroeder signed certifications stating, among other things, that he had reviewed the Forms  
4 10-Q for these periods and he was not aware of any material misstatements of fact or omissions in  
5 those filings.

6 40. In addition, KLA's Forms 8-K filed on April 23, 2003, July 24, 2003, October 22,  
7 2003, January 22, 2004, April 21, 2004, July 29, 2004, October 21, 2004, January 20, 2005, April 28,  
8 2005, July 28, 2005 and October 27, 2005, each of which announced the Company's financial results  
9 for the prior quarter, contained materially false and/or misleading financial information because of  
10 KLA's failure to record compensation expenses associated with undisclosed grants of in-the-money  
11 stock options. Additionally, KLA's Form 8-K filed on March 21, 2001 announced projected third  
12 quarter financial results which were materially false and/or misleading. KLA recorded false and  
13 misleading information in its books and records, and the representations to KLA's shareholders in its  
14 annual, quarterly and current reports about the Company's stock option program, and its financial  
15 results, were untrue.

16 41. KLA's proxy statements (which were sent to its shareholders) for fiscal years 1998  
17 through 2002 also made materially false representations about executive compensation. Among other  
18 things, in describing executive compensation, the proxy statements each falsely stated that stock  
19 options were granted to certain executives at market price on the date of grant. In addition, KLA's  
20 proxy statement for fiscal year 2001 stated that one of the material terms of certain grants to certain  
21 executives was that the exercise price of the options was the fair market value of the Company's  
22 Common Stock as of the date of grant. Moreover, KLA's proxy statement for fiscal year 2002 stated  
23 that certain executives, including Schroeder, received a number of options in the last fiscal year which  
24 "were granted at an exercise price equal to the fair market value of the Company's Common Stock on  
25 October 2, 2001." This statement was false, and further failed to disclose the fact that the options  
26 granted to Schroeder were in-the-money by approximately \$5 million.

27 42. KLA provided documentation, which failed to disclose the true grant dates for options  
28 to employees and officers, to the Company's external auditors in connection with audits of KLA's

1 financial statements. Relying on the false documentation supplied to them, the auditors concurred  
2 with KLA's assessment that no compensation expense should be recorded for the options granted to  
3 employees. Schroeder knew or was reckless in not knowing that KLA provided false grant approval  
4 information to its auditors.

5 43. In addition, Schroeder signed management representation letters with reference dates  
6 of July 27, 1999, September 27, 1999, May 12, 2000, July 24, 2000, September 25, 2000, September  
7 27, 2000, November 9, 2000, November 14, 2000, February 14, 2001, May 11, 2001, July 31, 2001,  
8 November 14, 2001, December 19, 2001, February 13, 2002, May 13, 2002, July 31, 2002,  
9 September 9, 2002, September 20, 2002, September 27, 2002, November 13, 2002, February 13,  
10 2003, May 14, 2003, July 23, 2003, September 12, 2003, November 6, 2003, February 5, 2004,  
11 March 5, 2004, August 18, 2004, November 2, 2004, December 22, 2004, February 3, 2005, April 29,  
12 2005, September 1, 2005 and November 18, 2005 to the auditors during the time period of the fraud  
13 falsely asserting that KLA's financial statements were prepared consistently with GAAP.

14 44. Schroeder caused to be signed and filed with the Commission a false Form 4, which  
15 was supposed to disclose to the public annual changes in his beneficial ownership of KLA securities.  
16 This Form 4, dated December 7, 2001, reported false grant dates for his option grants.

17 45. In May 2006, the Special Committee of KLA's Board of Directors began to investigate  
18 the Company's historical options granting practices. As a result of the Special Committee  
19 investigation, KLA announced in February 2007 restated financial results to record expenses for  
20 options grants to employees. KLA announced the recording of additional pre-tax, non-cash, stock-  
21 based compensation expenses of (a) \$348 million for the periods July 1, 1994 to June 30, 2005 under  
22 APB Opinion No. 25, and (b) \$28 million for the period from July 1, 2005 through December 31,  
23 2006 under SFAS No. 123(R).

24 **F. Schroeder Was Motivated by Personal Gain and Competitive Advantage to Backdate**  
25 **Options**

26 46. Schroeder knew that he and other officers of KLA similarly received options  
27 backdated as of the same dates as the backdated employee options. He thus was motivated to  
28

1 continue the scheme, in part, to enrich himself and his fellow officers. In addition, he knew providing  
2 in-the-money options to employees helped him in “attracting and retaining people.”

3 47. Pursuant to the backdated grants, Schroeder received options that were in-the-money  
4 by millions of dollars. On at least two occasions, Schroeder received large options grants which were  
5 dated as of the same dates on which he had granted other employees backdated options. Those grants  
6 to Schroeder were backdated as of April 4, 2001 and October 2, 2001. Schroeder was also unjustly  
7 enriched, through, among other things, the exercise of additional stock options, the sale of KLA stock  
8 at prices fraudulently inflated as a result of KLA’s false financial statements and the receipt of  
9 bonuses.

10 **FIRST CLAIM FOR RELIEF**  
11 *(Violations of Section 10(b) of the*  
12 *Exchange Act and Rule 10b-5 Thereunder by Schroeder)*

13 48. The Commission realleges and incorporates by this reference Paragraphs 1 through 47,  
14 above.

15 49. By engaging in the conduct described above, Schroeder, directly or indirectly, in  
16 connection with the purchase or sale of securities, by the use of means or instrumentalities of  
17 interstate commerce, or the mails, with scienter:

- 18 (a) employed devices, schemes, or artifices to defraud;
- 19 (b) made untrue statements of material facts or omitted to state material facts  
20 necessary in order to make the statements made, in the light of the  
21 circumstances under which they were made, not misleading; and
- 22 (c) engaged in acts, practices, or courses of business which operated or would  
23 operate as a fraud or deceit upon other persons, including purchasers and  
24 sellers of securities.

25 50. By reason of the foregoing, Schroeder has violated, and unless restrained and enjoined,  
26 will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17  
27 C.F.R. § 240.10b-5] thereunder.  
28

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

**SECOND CLAIM FOR RELIEF**

*(Aiding and Abetting Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder by Schroeder)*

51. The Commission realleges and incorporates by this reference Paragraphs 1 through 47, above.

52. By engaging in the conduct described above, Schroeder, directly or indirectly, in connection with the purchase or sale of securities, by the use of means or instrumentalities of interstate commerce, or the mails, with scienter:

- (a) employed devices, schemes, or artifices to defraud;
- (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and
- (c) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons, including purchasers and sellers of securities.

53. Schroeder knowingly provided substantial assistance to another person's violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5], and therefore is liable as an aider and abettor pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

54. Unless restrained and enjoined, Schroeder will continue to violate and aid and abet violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.

23  
24  
25  
26  
27  
28

**THIRD CLAIM FOR RELIEF**

*(Violations of Section 17(a)(1) of the Securities Act by Schroeder)*

55. The Commission realleges and incorporates by this reference Paragraphs 1 through 47, above.

56. By engaging in the conduct described above, Schroeder, directly or indirectly, in the offer or sale of securities, by use of the means or instruments of transportation or communication in

1 interstate commerce or by use of the mails with scienter employed devices, schemes, or artifices to  
2 defraud.

3 57. By reason of the foregoing, Schroeder violated, and unless restrained and enjoined,  
4 will continue to commit violations of, Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)].

5 **FOURTH CLAIM FOR RELIEF**

6 *(Violations of Sections 17(a)(2) and (3) of the Securities Act by Schroeder)*

7 58. The Commission realleges and incorporates by this reference Paragraphs 1 through 47,  
8 above.

9 59. By engaging in the conduct described above, Schroeder, directly or indirectly, in the  
10 offer or sale of securities, by use of the means or instruments of transportation or communication in  
11 interstate commerce or by use of the mails:

12 (a) obtained money or property by means of untrue statements of material fact  
13 or by omitting to state a material fact necessary in order to make the  
14 statements made, in light of the circumstances under which they were  
15 made, not misleading; and

16 (b) engaged in transactions, practices, or courses of business which operated  
17 or would operate as a fraud or deceit upon the purchasers.

18 60. By reason of the foregoing, Schroeder has violated, and unless restrained and enjoined,  
19 will continue to violate Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. § 77q(a)(2) and  
20 (3)].

21 **FIFTH CLAIM FOR RELIEF**

22 *(False Statements and Omissions to Accountants and Auditors—  
23 Violation of Rule 13b2-2 by Schroeder)*

24 61. The Commission realleges and incorporates by this reference Paragraphs 1 through 47,  
25 above.

26 62. By engaging in the acts and conduct alleged above, Schroeder, directly or indirectly,  
27 made or caused to be made a materially false or misleading statements or omitted to state or caused  
28 another person to omit to state, material facts necessary in order to make statements made, in light of  
the circumstances under which such statements were made, not misleading to an accountant in

1 connection with an audit or examination of the financial statements of KLA required to be made or  
2 the preparation or filing of reports required to be filed by KLA with the Commission.

3 63. By reason of the foregoing, Schroeder has violated and, unless restrained and enjoined,  
4 will continue to violate Rule 13b2-2 [17 C.F.R. § 240.13b2-2].

5 **SIXTH CLAIM FOR RELIEF**

6 *(False Periodic Reports—Aiding and Abetting Violations*  
7 *of Section 13(a) of the Exchange Act and Rules 12b-20,*  
8 *13a-1, 13a-11 and 13a-13 Thereunder by Schroeder)*

9 64. The Commission realleges and incorporates by this reference Paragraphs 1 through 47,  
10 above.

11 65. Based on the conduct alleged above, KLA violated Section 13(a) of the Exchange Act  
12 [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, 13a-11 and 13a-13 [17 C.F.R. §§ 240.12b-20,  
13 240.13a-1, 240.13a-11 and 240.13a-13] thereunder, which obligate issuers of securities registered  
14 pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] to file with the Commission accurate  
15 annual and quarterly reports.

16 66. By engaging in the conduct alleged above, Schroeder knowingly provided substantial  
17 assistance to KLA's filing of materially false and misleading reports with the Commission.

18 67. By reason of the foregoing, Schroeder aided and abetted violations by KLA of Section  
19 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, 13a-11 and 13a-13 [17  
20 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11 and 240.13a-13] thereunder. Unless restrained and  
21 enjoined, Schroeder will continue to aid and abet such violations.

22 **SEVENTH CLAIM FOR RELIEF**

23 *(Inaccurate Books and Records—Aiding and Abetting Violations of*  
24 *Section 13(b)(2)(A) of the Exchange Act by Schroeder)*

25 68. The Commission realleges and incorporates by this reference Paragraphs 1 through 47,  
26 above.

27 69. Based on the conduct alleged above, KLA violated Section 13(b)(2)(A) of the  
28 Exchange Act [15 U.S.C. § 78m(b)(2)(A)], which obligates issuers of securities registered pursuant to  
Section 12 of the Exchange Act [15 U.S.C. § 78l] to make and keep books, records and accounts

1 which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets  
2 of the issuer.

3 70. By engaging in the conduct alleged above, Schroeder knowingly provided substantial  
4 assistance to KLA's failure to make and keep books, records and accounts which, in reasonable  
5 detail, accurately and fairly reflect its transactions and dispositions of its assets.

6 71. By reason of the foregoing, Schroeder has aided and abetted violations by KLA of  
7 Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)]. Unless restrained and  
8 enjoined, Schroeder will continue to aid and abet such violations.

9 **EIGHTH CLAIM FOR RELIEF**

10 *(Inadequate Internal Accounting Controls—Aiding and Abetting  
Violations of Section 13(b)(2)(B) of the Exchange Act by Schroeder)*

11 72. The Commission realleges and incorporates by this reference Paragraphs 1 through 47,  
12 above.

13 73. Based on the conduct alleged above, KLA violated Section 13(b)(2)(B) of the  
14 Exchange Act [15 U.S.C. § 78m(b)(2)(B)], which obligates issuers of securities registered pursuant to  
15 Section 12 of the Exchange Act [15 U.S.C. § 78l] to devise and maintain a sufficient system of  
16 internal accounting controls.

17 74. By engaging in the conduct alleged above, Schroeder knowingly provided substantial  
18 assistance to KLA's failure to devise and maintain a sufficient system of internal accounting controls.

19 75. By reason of the foregoing, KLA has aided and abetted violations by KLA of Section  
20 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)]. Unless restrained and enjoined,  
21 Schroeder will continue to aid and abet such violations.

22 **NINTH CLAIM FOR RELIEF**

23 *(Falsifying Books and Records or Circumventing Internal Accounting  
Controls—Violation of Section 13(b)(5) of the Exchange Act by Schroeder)*

24 76. The Commission realleges and incorporates by this reference Paragraphs 1 through 47,  
25 above.

26 77. By the conduct alleged above, Schroeder violated Section 13(b)(5) of the Exchange  
27 Act [15 U.S.C. § 78m(b)(5)] which prohibits anyone from knowingly circumventing a system of  
28 internal accounting, or knowingly falsifying certain books, records, and accounts.

1 78. Unless restrained and enjoined, Schroeder will continue to violate Section 13(b)(5) of  
2 the Exchange Act [15 U.S.C. § 78m(b)(5)].

3 **TENTH CLAIM FOR RELIEF**  
4 *(Falsifying Books and Records—Violation of*  
5 *Rule 13b2-1 of the Exchange Act by Schroeder)*

6 79. The Commission realleges and incorporates by this reference Paragraphs 1 through 47,  
7 above.

8 80. By engaging in the conduct described above, Schroeder falsified or caused to be  
9 falsified KLA's books, records and accounts in violation of Rule 13b2-1 under the Exchange Act [17  
10 C.F.R. § 240.13b2-1].

11 81. Schroeder has violated and, unless restrained and enjoined, will continue to violate, Rule  
12 13b2-1 under the Exchange Act [17 C.F.R. § 240.13b2-1].

13 **ELEVENTH CLAIM FOR RELIEF**  
14 *(False Proxy Statements—Aiding and Abetting Violations*  
15 *of Section 14(a) of the Exchange Act and Rule 14a-9 Thereunder by Schroeder)*

16 82. The Commission realleges and incorporates by this reference Paragraphs 1 through 47,  
17 above.

18 83. Based on the conduct alleged above, KLA violated Section 14(a) of the Exchange Act  
19 [15 U.S.C. § 78n(a)] and Rule 14a-9 thereunder [17 C.F.R. § 240.14a-9], which prohibits solicitations  
20 by means of a proxy statement, form of proxy, notice of meeting or other communication, written or  
21 oral, that contain a statement which, at the time and in the light of the circumstances under which it  
22 was made, was false or misleading with respect to any material fact, or which omit to state any  
23 material fact necessary in order to make the statements therein not false or misleading or necessary to  
24 correct any statement in any earlier communication with respect to the solicitation of a proxy for the  
25 same meeting or subject matter which had become false or misleading.

26 84. By engaging in the conduct alleged above, Schroeder knowingly provided substantial  
27 assistance to KLA's false or misleading proxy statements.

28 85. By reason of the foregoing, Schroeder has aided and abetted violations by KLA of  
Section 14(a) of the Exchange Act [15 U.S.C. § 78n(a)] and Rule 14a-9 [17 C.F.R. § 240.14a-9]  
thereunder. Unless restrained and enjoined, Schroeder will continue to aid and abet such violations.

